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IMPROVEMENTS NEEDED IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S EFFORTS TO AVOID SINGLE-FAMILY MORTGAGE FORECLOSURES

THIRTY-FIRST REPORT

BY THE

COMMITTEE ON GOVERNMENT OPERATIONS

AUGUST 19, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., August 19, 1982.

Hon. THOMAS P. O'NEILL, Jr.,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirty-first report to the 97th Congress. The committee's report is based on a study made by its Manpower and Housing Subcommittee.

JACK BROOKS, *Chairman.*

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97TH CONGRESS, 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 97-772

IMPROVEMENTS NEEDED IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S EFFORTS TO AVOID SINGLE-FAMILY MORTGAGE FORECLOSURES

AUGUST 19, 1982.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BROOKS, from the Committee on Government Operations, submitted the following

THIRTY-FIRST REPORT

BASED ON A STUDY BY THE MANPOWER AND HOUSING SUBCOMMITTEE

On August 10, 1982, the Committee on Government Operations approved and adopted a report entitled "Improvements Needed in the Department of Housing and Urban Development's Efforts To Avoid Single-Family Mortgage Foreclosures." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

A. THE TIMELINESS OF THIS REPORT

Single-family mortgage delinquencies rose to a national level of 5.35 percent in the first quarter of 1982.[1] The Mortgage Bankers Association (MBA) reported that this was the highest rate ever recorded.[2] Illinois led the nation; 8.12 percent of its home mortgages were delinquent in March 1982.[3]

For the Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD) which insures the mortgages of approximately 10 percent of all American homes, delinquencies are even higher. Some 6.8 percent of all FHA-insured home loans, for example, were delinquent as of March 1982.[4]

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[1] "National Delinquency Survey," Mortgage Bankers Association of America, May 17, 1982; 1125 15th Street, N.W., Washington, D.C. 20005
[2] Ibid.
[3] Ibid.
[4] Ibid.

Nationwide, the MBA reports that .41 percent of all mortgages were in foreclosure proceedings, and .54 percent of all FHA mortgages were in foreclosure proceedings.[5] These figures are historical levels.

A combination of high unemployment and the rising costs associated with homeownership has forced many owners to either sell their dwellings, or fall into delinquency and await foreclosure.

Due to present economic conditions, HUD, has to be especially attentive to limiting its losses arising from claims while offering as much forbearance as possible to financially hard-pressed homeowners. ["Forbearance" is technically any grace period given in lieu of foreclosure. Banks or HUD can extend forbearance. Forbearance for HUD is either assignment or TMAP, terms which will be explained later in this report. The term "forbearance" will be used throughout to denote either assignment or TMAP].

B. THE THEME OF THIS REPORT

Nonsubsidized single-family mortgage insurance (authorized under Section 203(b) of the National Housing Act) is similar to any insurance in that premiums are collected to create an insurance fund—in this instance, the Mutual Mortgage Insurance Fund.

Outlays from the Fund are primarily in the form of claims paid to mortgagees who present court-awarded deeds at the end of foreclosure proceedings. Other outlays which are made from the Fund or the HUD budget include: claims paid to mortgagees upon acceptance of assignment, staffing costs, cost of training staff, and mortgage counseling.

The central theme of this report is that although the Department has made great strides in recent years, HUD has not attempted to control insurance claims by finding the proper levels of outlays; i.e., the mixture of staffing levels, forbearance criteria, mortgage counselor and staff training, readjusted levels of mortgage payments, etc.

Overall present budget pressures are forcing HUD to cut staff and counseling and other outlays, but the Department is unable to determine the savings realized by those cuts will be off-set by greater insurance claims. As the national economy remains stagnant and foreclosures continue to rise, HUD may find itself in the position of paying more in insurance claims than it saves by cutting the cost of its forbearance program.

The Committee suggests that a well-run forbearance program can help to control claim payments. In foreclosure, HUD, homeowners, and communities generally lose.

C. THE TIMEFRAME OF THIS REPORT

At the writing of this report, regulations for the Temporary Mortgage Assistance Payments (TMAP) program have been proposed.[6] This report and its recommendations take into account the expected implementation of TMAP, court challenges, and the continuation of the forbearance program.

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[5] Ibid.
[6] Federal Register, April 5, 1982, Vol. 47, No. 65, pp. 14496–14500.

D. DESCRIPTION OF HEARINGS

In Chicago, on March 1, 1982, and in Washington, D.C., April 1, 1982, the Subcommittee on Manpower and Housing held hearings to examine the severity of FHA-insured and the uninsured mortgage delinquency problem and to examine the effectiveness and efficiency of HUD's efforts to avoid single-family mortgage foreclosures.[7]

Testimony was given by distressed homeowners, mortgage counselors, mortgage bankers, and attorneys who have defended FHA-insured mortgagors. Testimony was given by litigants in the court suit which resulted in the implementation of the current program, discussed later in this report. Appearing on behalf of the Department was Mr. G. H. Bowers, Jr., Deputy Assistant to the Secretary for Single-Family Housing and Mortgage Activities, accompanied by staff from HUD area, regional and central offices.

Discussions were held with community groups, HUD contractors, private mortgage insurers, private mortgage counselors, bankers, and other HUD staff.

II. Background

A. THE SCOPE OF THE FORECLOSURE PROBLEM

In 1981, 150,000 FHA-insured homeowners became eligible for foreclosure.[8] In the case of 5,500 of the homeowners, HUD stepped in and accepted an assignment of the mortgage, thus at least temporarily preventing foreclosure.

To service single-family loan management, HUD's estimated staffing needs for 1983 are as follows: Conducting mortgage reviews, 34 staff years; mortgage default monitoring, 39 staff years; current mortage servicing, 30 staff years; mortgage assignment activities, 167 staff years; HUD-held mortgage servicing, 137 staff years; and counseling agencies monitoring, 11 staff years.

Reimbursing mortgagees for nonsubsidized single-family claims in 1981 resulting from foreclosure cost the Mutual Mortgage Insurance Fund $326,000,000 or $38,754 per mortgage, for the 11,732 claims made in that year. HUD also spent $61 million, an average $5,000 per house on repairs, board-up fees, and management fees. Since the average sale price of a HUD-owned dwelling is approximately $20,000, HUD's out-of-pocket loss per foreclosure is about $23,000.

FHA-insured dwellings account for a disproportionate share of the total number of foreclosures. Ten percent of all houses are FHA-insured; however, approximately ½ of the 32,000 single-family foreclosures expected nationally this year are for FHA-insured mortgages.

B. FHA-INSURED HOMEOWNERS

HUD is aware of the special problems that are inherent in administering mortgage insurance. For an insight into these problems, the Subcommittee sought testimony from FHA homeowners facing the

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[7] Hearing on The Department of Housing and Urban Development's Responsiveness to Mortgage Defaults, before the Subcommittee of the Committee on Government Operations, 97th Congress, 2d Session, March 1 and April 1, 1982 (hereinafter cited as hearings).

[8] The following material supplied by HUD staff.

loss of their homes. Their attitudes are significant; they are one of the major factors to be considered in constructing an efficient and effective mortgage insurance program.

Mortgage insurance was designed for the first-time and for marginal home buyers who might not otherwise qualify for a conventional mortgage. Many of the homeowners who testified rose to moderate-income status in the late sixties and early seventies.

Most importantly the Subcommittee hearing disclosed the deep-rooted attitudes defaulted homeowners often have towards their home. Homeowners are willing to make enormous sacrifices because of the emotional, as well as financial stake, they have invested in their homes. A truism is that owning a home in America is more than simply securing shelter and/or favorable tax treatment. Homeownership represents achievement, and to a degree, security and stability. This helps to explain why, even when the financial incentive no longer remains for a mortgagor to try to maintain ownership, he will often persist. He will struggle to retain the home, because foreclosure is viewed as defeat and a regression in social standing. Integral to operating mortgage insurance is the harnessing of the homeowner's desire to sacrifice for his home which can not necessarily be justified by pure economics.

The hearing testimony also has significance because it highlights the lack of understanding which many mortgagors have in the area of home finance. Homeowners, even after the foreclosure process has begun, were unaware of the existence of homeowner counselors and the assignment option. They didn't understand the reimbursement system in mortgage insurance. HUD appears to these people an indiscernible, inexplicable, unmovable organism. Many of the homeowners interviewed had minimal understanding of the law and rarely, if ever, engaged the services of lawyers or legal aids. An efficient forbearance model (whether it be assignment, TMAP, etc) has to take into account that oftentimes an FHA-insured mortgagor may not comprehend the system. He may not smoothly prepare himself with adequate legal background, save his records, communicate with his mortgagee, and quickly and consistently act in his own apparent best interest.[9]

C. FHA FORBEARANCE

1. History

The current forbearance program (called "assignment" because the mortgagee is reimbursed and the mortgage is then "assigned" from mortgagee to HUD) was instituted by HUD to settle the court case *Ferrel* v. *Hills* (Case No. 73, C 334, U.S.D.C. N.D. Ill., July 29, 1972).[10]

In 1973, the Legal Services Corporation, on behalf of all FHA homeowners, filed suit against HUD in Chicago. Legal Services claimed that because a FHA mortgage is fully insured, mortgage companies had no incentive to be lenient with homeowners. Mortgage companies had only to foreclose to be reimbursed by HUD/FHA. Legal Services on behalf of the plaintiffs alleged that HUD had totally failed to provide sufficient relief to mortgagors who were falling be-

[9] For a full description see hearings.

[10] HUD issued HM Mortgage Letter 76-9 and Notice HM-76-43, each dated May 17, 1976, to outline its new policy toward accepting assignment.

hind their mortgage payments. Federal District Court Judge ruled in the plaintiffs' favor and found that:

> . . . HUD has tragically misled thousands of low income Americans . . . Extensions, recasting of the mortgages, purchase of the mortgages by the FHA prior to foreclosure and their subsequent recasting, all were obviously necessary to carry out the Congressional purpose as the guidelines recognized. Yet HUD has done nothing to insure that these procedures would be followed . . . HUD, contrary to its statutory obligation, has forced foreclourses rather than taken action to prevent them. If HUD had consciously and deliberately set out to frustrate the Congressional purpose and sabotage the program, it could hardly have done so more effectively short of simply refusing to carry it out.[11]

To settle the lawsuit, HUD offered the current assignment program. In 1977, 203(b) assignments reached 1,600 mortgages, up from less than 200 per year from 1969 to 1976. However, soon after the program was created, HUD was challenged again.

The plaintiffs returned to court, charging that HUD was not carrying out its own regulations. The court ordered a HUD survey, determined the claims had merit, and ruled in the plaintiffs' favor. The judge ordered that all 25,000 homeowners whose mortgages were offered for assignment between 1976 and 1979, be offered the opportunity to reapply and that under the clarified regulations any mortgagor who should have been given assignment be restored to his home or a comparable substitute dwelling.

Clearly, the assignment program has not been developed in the standard fashion of most HUD efforts:

Assignment was created in haste to satisfy the courts, and HUD is primarily acting to satisfy a court ruling;

Unlike most programs, no pilot study and little deliberation occurred before implementation;

HUD did not institute assignment to address a perceived need;

The second HUD/Legal Services indicates HUD's resistance to the assignment program; and

Assignment is in its formative stages.

2. The assignment program

Under assignment, HUD can prevent foreclosure of a delinquent mortgage provided the following eligibility criteria, among others are met: (1) the homeowner must show that he defaulted on his mortgage because of circumstances bevond his control which temporarily reduced his ability to make full payment; (2) the homeowner must show there is a reasonable prospect that he will be able to resume full mortgage payments after a period of reduced or suspended payments not exceeding 36 months; and (3) he must show that he will be able to pay the mortgage in full by its original maturity date, extended if necessary up to 10 years.

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[11] *Brown* v. *Lynn*, 385 F. Supp. 986, 1000 (N.D. Ill., 1974).

When a mortgage becomes delinquent, the mortgagee will review the case and decide whether the mortgagor would likely meet HUD assignment criteria. If the mortgage company feels the homeowner meets the criteria, they will send the case to HUD for a decision. In the event the mortgage company does not feel the homeowner meets the assignment criteria, it will not make a request, but will inform the mortgagor that he may apply to HUD himself.

When HUD accepts assignment, it reimburses the mortgagee for the unpaid balance of the mortgage, and creates a new payment plan with the mortgagor. HUD thus becomes the mortgagee and is the entity to which mortgage payments are made. Once a mortgage has been assigned, the mortgage never returns to the original mortgage company. The new payment plan (called a "work-out agreement") is tailored to the homeowner's financial condition. If HUD accepts assignment it prevents foreclosure: if not, the mortgage company generally initiates foreclosure proceedings.

3. The temporary mortgage assistance payment program

Under TMAP, HUD provides assistance to FHA-insured mortgagors in fault by providing a loan to assist them in making their mortgage payments. HUD in effect gives a loan to the homeowner, which is secured by a lien on the property.

When a homeowner becomes delinquent, the mortgagee can ask HUD to provide assistance to the homeowner. The homeowner makes reduced payment, and HUD pays the difference between the total monthly mortgage and the homeowner's contribution. A HUD contractor called the "concentrator," [12] collects payments per work-out agreement from the mortgagor and from HUD, and dispenses appropriate mortgage payments to mortgagees. The differences between TMAP and assignment are noteworthy:

Under TMAP the mortgage stays with the original mortgage company, whereas with assignment, HUD becomes the mortgagee;

With assignment there is no loan or second mortgage, but under TMAP a lien is created;

Under TMAP HUD pays only the difference between the homeowner's contribution and the total monthly mortgage payment, while with assignment HUD makes lump-sum reimbursement of the entire mortgage and becomes the servicer;

TMAP relies on the concentrator to coordinate HUD and mortgagor's payments, while this function is unnecessary under assignment, and

TMAP is voluntary on the part of the mortgage company.

III. Discussion

A. HUD needs to take an overall look at the costs of the operation of its single-family mortgage insurance

The Committee's first recommendation address HUD's forbearance program as a whole. That program was begun in haste 6 years ago, and the Committee recommends that HUD take stock of what it has learned.

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[12] Request For Proposals: HC-10726, Loan Processing Services for the Temporary Mortgage Assistance Payments (TMAP Program), April 7, 1982.

Because the mortgage assignment program never had a trial run prior to implementation and because the momentum of nearly 40 years of FHA is resisting acceptance by HUD of the concept of forbearance, HUD's administration of assignment (and TMAP) needs to be reevaluated.

Every time HUD has to reimburse a mortgage company for an insured, foreclosed mortgage, the FHA insurance fund suffers a net loss of approximately $23,000. Every aspect of HUD forbearance, while complying with the court settlement which instituted assignment, has to be costed relative to that $12,000 figure.

HUD has operated its forbearance program, but hasn't used forbearance to save itself from mortgage insurance claims. There may be an institutional reluctance to fully incorporate forbearance into FHA because it was court imposed. Whatever the reason, the primary flaw in HUD's policy towards forbearance appears to lie in the way HUD has costed-out the program. In effect, HUD views the losses it takes via its insurance fund as the necessary cost of offering mortgage insurance; HUD/FHA is legally bound to honor its insurance commitments. HUD policy, however, appears to have taken the additional step of treating claims as costs over which HUD has little or no control.

Raising staff levels to increase assistance to homeowners or changing assignment criteria would affect insurance claim levels. Unfortunately, HUD has never quantified the correlation, and HUD's policy seems to ignore the relation.

The major policy decisions regarding HUD's administration of FHA forbearance ultimately become budgetary issues: can HUD afford more staff, can HUD afford to offer homeowners counseling, and can HUD afford to provide forbearance to more people? These questions assume that single-family mortgage forbearance is like any other HUD program—resources should be allocated by balancing one program goal against another. In the case of forbearance, by contrast, HUD ought to balance the resources needed to operate its insurance fund against the total claim outlays of the fund, not against other social programs within HUD. Forbearance is not strictly a social program; it is a device for limiting insurance fund losses.

Now that HUD staff is being cut and the national mortgage delinquency rate remains high, HUD administration of forbearance takes on a considerable human dimension. HUD estimates that in 1982 over 150,000 homeowners it insures will become 90 days or more delinquent. As the homeowner witnesses in the investigating Subcommittee's hearings demonstrate, many mortgagors are casting about trying to save their home. They are trying to overcome what are often temporary financial difficulties.

HUD best interest is served when as many troubled mortgagors who can repay loans in the near future are given forbearance and remain current on their work-out agreements because fewer claims are made on the insurance fund. Moreover, homeowner relief aids in preserving stability of homeowners and communities as well because it minimizes dislocation.

In the Subcommittee's hearing, the following exchange indicates that HUD needs to take an overall, comprehensive look at the total cost of the single-family mortgage insurance program:

> Mrs. COLLINS. . . . Can you tell me whether spending more money on operating costs such as staff and more lenient assignment criteria or more lenient work-out agreements would result in a net savings to the insurance itself.
>
> Mr. BOWERS. To my knowledge, there has not been a specific study made in the area, but we have, I would say, been generally involved in handling individuals whose home mortgages are in trouble because they have not been able to make the payments.

An example of a potential inefficiency caused by inadequate resources is the default rate on work-out agreements. In many area offices the secondary default rate is nearly 16%. During the investigating Subcommittee's Chicago hearing, HUD stated that four staff members are assigned to service the 2,000 mortgages under assignment in that office. At a ratio of one staff person per 500 mortgagors, HUD matches some mortgage companies, whose inventory is almost exclusively health loans.

Pinpointing the major cause or major solution the secondary default rate is difficult without some sort of pilot study of alternatives. However, the level of staffing is more likely a heavy influence. Not only does inadequate staff make servicing difficult, but it also affects the quality of work-out agreements (which, in turn affects the secondary default rate). Unfortunately, HUD has never determined the most cost-effective number of staff per assigned loan. HUD determines only how much staff it thinks it can afford.

Staffing levels may have other effects which go beyond secondary default. HUD field staff may be reluctant to see that mortgagors are fully apprised of their forbearance options and may be reluctant to accept mortgagors into a forbearance program. This is because each additional mortgagor accepted increases the considerable work load already carried but HUD servicers. Not only is HUD forbearance not as effective as it might be, but only a small percentage of delinquent mortgages are considered for assignment. Staffing levels, in this case, demonstrate the interrelatedness of operating costs to insurance losses.

One further example of this kind of cost-benefit analysis necessary in a program as big as single-family insurance is the criteria used to accept homeowners for forbearance. FHA appears locked into the standards now in force. However, if the fundamental aim of HUD policy is to protect the insurance fund, then perhaps a review of criteria is in order.

Private mortgage companies and private debt collection agencies profile debtors likely to repay their defaulted loans. HUD has never determined whether its interpretation of standards or its selection process is excluding mortgagors, who with help, have a high probability of recovering. Variables which could be considered are: duration of mortgage, age of homeowner, employment record, etc. HUD recently began computerizing the data base it receives from mortgage counselors, which profiles financially troubled homeowners. This information would be useful if HUD were to attempt to target assistance more efficiently. Such analysis should already have been done.

HUD should not wait for the implementation of TMAP to begin a general re-evaluation of its forbearance. TMAP (which will be treated

at greater length than in the report) does not change several significant aspects of existing forbearance, e.g., homeowner criteria, staffing levels, etc.

HUD can make positive changes in forbearance because discretion in assignment is fairly broad. Section 230 of the National Housing Act (Section 114(a) Housing Act of 1959 Public Law 86–372) states: "The Secretary, in his discretion, and for the purpose of avoiding foreclosure of the mortgage . . . may acquire the loan and security therefor. . . ." When HUD began to TMAP pilot project, it did not feel constrained. When HUD judged the pilot successful, it sought enabling legislation. Thus, HUD is willing to make changes.

HUD has in the past recognized that at least part of the assignment program, which was hastily drawn up to satisfy the suit, needed to be re-evaluated. A 1980 HUD-commissioned study compared the cost-effectiveness of the assignment program's lump-sum mortgage reimbursement with an incremental payout alternative, procedure.[13] Thus, in 1980, HUD asked for and received legislative authority to implement the new procedure system, known as TMAP. It is currently being brought on line and may be in operation in late 1982.

The TMAP study was a positive sign because it showed HUD was willing to re-evaluate all aspects of forbearance. The Committee suggests that the whole forbearance program be evaluated in light of its effect on claims outlays.

B. HUD SUPPORT OF HOMEOWNER COUNSELING SHOULD BE STRENGTHENED

In line with the Committee's recommendation that the operation of the single-family insurance fund be keyed to its effect upon claims outlays. HUD's allocation for mortgage counseling ought to be maintained.

Clearly, this is one area where unanimity exists. This Committee and the Congress as a whole have requested default counseling set-asides. HUD's studies have shown counseling to be cost-effective. HUD's testimony at the hearings reaffirmed the Department's verbal support for counseling.[14]

However, an example of HUD's behavior toward counseling is HUD's 1983 proposed budget, in which HUD requested no money for counseling. Rather, HUD suggests that counseling agencies seek money from Community Development Block Grants. HUD told the Subcommittee that in 1975 counseling agencies received an average of 25 percent of their funding from HUD counseling grants.[15] HUD stated that the figure was probably higher and did not know what percentage of funding counseling agencies received from Community Development Block Grants.

Through several Administrations, HUD has been reluctant to support homeowner counseling. The Department, for several years, has refused to spend counseling money authorized by Congress until a specific was mandated by Congress in 1977.[16] Once the grant program

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[13] The Protective Insurance Payments Demonstration—A Temporary Mortgage Assistance Program. Contract H–205, June 1980 by B. E. and C. Engineers, Inc.
[14] See hearings.
[15] Statistics supplied by HUD staff.
[16] H.R. 94–1187, "Counseling Low-Income Homeowners," May 24, 1976.

was established, annual allocations were delayed year after year. This is especially unfortunate because counseling agencies are primarily small, independent store-front operations. HUD counseling grants average $10,000 each.

HUD's mishandling of fiscal year 1981's funding was the latest example of HUD's callous attitude toward counseling.[17] Even though the awards decision had been completed in February 1981 for the fiscal year 1981 funding cycle, HUD held back the counseling agencies' checks. In March 1981, the Administration offered its recission bill to cut back previously authorized spending limits. At that time, HUD could have allocated $4 million of the $10 million that had been appropriated already. HUD refused to act. On June 4, 1981, Congress authorized $7 million. Still no HUD checks. Finally, HUD realized that it was approaching the deadline for awarding Fourth quarter spending limitations, which require that 70 percent of available funds be spent before that point in the fiscal year. One day before those limitations were to take effect (June 30), HUD sent a waiver request to OMB, which denied the request.

HUD's delays have cost counseling agencies $4.7 million of the $7 million in grants and support finally authorized. One-third of all counseling agencies (100 of the approximately 300 funded in 1980) received no money. By HUD's own reckoning, 140,000 clients could have been helped by counseling if the entire $7 million authorized had been spent. Instead, the $2.35 million allocated meant 95,000 fewer people were helped.

The major flaw in HUD's policy toward counseling money generally is that counseling serves not only homeowners, but also the fiduciary interests of HUD's Mutual Mortgage Insurance Fund. The decision to fund counseling should be based upon whether counseling outlays will increase or decrease FHA's net insurance costs.

Significantly, HUD's TMAP study provided for default counseling. It was on the strength of the study's results that HUD requested TMAP's enabling legislation in 1980. Congress specifically requested that counseling be "provided where applicable." [18] Now that TMAP is being implemented, not only is counseling not a part of TMAP, but HUD in its proposed 1983 budget eliminated money earmarked for single-family forbearance counseling.[19] (At this writing, both Houses of Congress have reinstated default counseling in House-Senate Committee versions of the Housing and Community Development Act of 1982.) House-Senate Committeee versions of this is a serious omission on HUD's part. Like assignment itself, counseling has never been given the administrative attention it deserves within HUD.

Counseling saves FHA money. FHA's net loss per foreclosure is $23,000. An individual housing counselor would need to save only two mortgages each year to save the government more than she/he earns as salary (plus overhead).

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[17] Supporting documentation can be found in Subcommittee files. These will be used in a later report on housing counseling.

[18] The National Housing Act, Section 230(b)(3)(d); (P.L. 479, 73d Congress, 48 Stat. 1246 12 U.S.C. 1701 *et seq.*)

[19] Fiscal year 1983 Budget. U.S. Department of Housing and Urban Development. Summary February 1982, p. H-45.

Improvements should be made in counseling

Committee testimony highlights the role that counseling plays and the improvements that should be made in that role.

Counseling is integral to the effectiveness of forbearance because without it, many mortgagors are unaware of their rights and responsibilities. Of the estimated 150,000 homeowners who fall 90 days or more behind on their payments, over 130,000 (86.6 percent) will not apply for any kind of relief under assignment. Of those 130,000, approximately 20,000 will go into foreclosure. Large numbers of mortgagors who apply for assignment do not know what it is, what information they need to supply when applying for assignment, and whether their work-out agreements are being drawn up correctly. Many of the 20,000 probably could have been helped had they availed themselves of counseling.[20]

HUD's 1980 counseling study, "Report of Home Mortgage Assignment Counseling, Training, and Evaluation Program," is a thorough analysis of the subject.[21] Testimony from one of the contractors of that study was given at the hearing.[22]

The report recommends HUD should continue to strengthen counseling. Instead over 300 counseling agencies were funded two years ago, about 200 were funded one year ago, and 143 were funded with fiscal year 1982 appropriations. In many areas, the resources which once existed are now gone. New funding will mean beginning anew—new recruiting of staff, new training, new settling-in periods. HUD's own behavior—in particular its failure to spend the fully appropriated fiscal year 1981 $7 million—was a prime contributor to this problem. Among the methods HUD could use to strengthen counseling are increased levels of funding, provision of training, increased cooperation with national support groups for counselors, and provision of timely information to counselors.

Committee research indicates that better utilization of counselors could improve their effectiveness. Counselors should be given training that is more standardized, since expertise in some agencies is uneven. This situation makes HUD field staff and mortgagees wary of bringing counselors into the forbearance process in any systematic way. For example, one researcher familiar with counselors told subcommittee investigators that he knew of cases where the counselor declined to attend work-out conferences with clients because the counselor thought he wasn't allowed to attend. In addition, HUD does not provide timely information to Housing Counseling agencies which might help them avoid even more foreclosures. Although HUD area offices are apprised by servicers when homeowners are delinquent, that information is not shared with agencies until several months thereafter—when many options and alternatives are no longer available and outreach to mortgagors is not nearly as effective.

In the hearings, Mr. Bowers, HUD's Deputy Assistant Secretary for Single-Family Housing, said that money for training was still

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[20] See hearings.

[21] Report of Home Mortgage Assignment Counseling, Training and Evaluation Programs, HUD Contract HC-6070. October 1980. National Urban League, Housing Division, 500 E. 62nd Street, New York, New York 10021. Submitted to HUD.

[22] See hearings.

available in FY 1983. This is a positive sign. Counselors almost without exception are very dedicated to their clients' well-being and can benefit from the additional expertise that training provides.

Increased responsibility for counselors within forbearance would ease HUD staff's workload and enhance homeowner cooperation. Further, many homeowners cease counseling visits when admitted into assignment. Continuing involvement during the work-out agreement, either in assignment or TMAP might ease the secondary default problems.

C. POTENTIAL PROBLEMS EXIST AS HUD IMPLEMENTS THE TEMPORARY MORTGAGE ASSISTANCE PAYMENT PROGRAM

At this writing, proposed TMAP regulations have been issued, and the Request for Proposals (RFP) for a TMAP contractor has been offered. HUD anticipates that "TMAP will be the primary source of assistance to homeowners who are in default, but the assignment program will remain available as a backup for defaulting homeowners in cases where the Secretary determines that assignment is more appropriate." [23]

1. Potential benefits

HUD's TMAP study claims the potential for savings is great under TMAP. Savings are anticipated because: (1) under assignment HUD assumes the entire mortgage, and mortgagees are able to unload low-interest defaulted mortgages. According to TMAP's proposed regulations, the mortgage stays with the mortgagee. HUD saves money by allowing the mortgagee to carry as large a share of the mortgage as possible. (2) Repayment of TMAP loans begins sooner under TMAP (immediately after reduced or suspended mortgage payments with TMAP vs. spread out over the remaining life of the mortgage with assignment). HUD contends that TMAP minimizes losses incurred from repayment with deflated dollars.

TMAP appears an attractive alternative because logically there is no need for HUD to service a mortgage for the life of the loan once a homeowner has recovered. (Theoretically, however, HUD can sell an assigned mortgage.) HUD personnel should be able to concentrate on servicing troubled loans. Approximately 17% of all assigned homeowners are making payments at or above the original mortgage, and thus appear to have recovered. HUD staff shouldn't be diverted to service these loans.

2. Potential problems

Because TMAP is not yet operational, pinpointing trouble spots is difficult. HUD will make adjustments to TMAP as the program becomes operational. This section of the Committee's report will highlight areas where HUD should be especially wary of problems. There are two central concerns with the implementation of TMAP: (1) TMAP forbearance relief may be unequal to relief under assignment; and (2) HUD's staffing levels could create problems for TMAP.

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[23] Federal Register, Vol. 47, No. 65, Monday, April 5, 1982, p. 14495.

3. Forbearance relief

a. Under the terms of the *Ferrel* case, TMAP could be suspended if the litigants returned to court and demonstrated that forbearance relief under TMAP was not equal to assignment. Mr. Gould, an attorney representing the plaintiff in the *Ferrel* case, stated that the major areas for comparison are eligibility criteria, work-out formula, and repayment schedule.[24] HUD's proposed regulations are vague on repayment schedules, they state only that the repayment schedule be tied to the mortgagors ability to pay.[25] If, for example, the terms of the work-out agreement were shorter, the interest on the TMAP loan were higher, or if mortgagors had to pay a higher share of income toward housing cost, then TMAP might not afford equal forbearance as assignment now offers.

There is a trade-off between cost-savings and eligibility requirements. Because the ability to repay the original loan and the TMAP loan is a requirement of eligibility for forbearance, the interest and the term of the TMAP loan affect eligibility. If TMAP eligibility requirements are restrictive, HUD will save money but fewer homeowners will be helped.

b. The proposed regulations give HUD wide discretion. For example, Section 203.640 of the proposed regulations states: "The Secretary *may* make temporary mortgage assistance payments . . . ." It is noteworthy that "may" is used instead of "shall" which is in the original assignment regulations. HUD could use the latitude to deny assistance that would have been given under assignment.

c. Section 203.646 of the proposed regulations states that mortgagees may refuse to accept TMAP. This permissiveness could weaken TMAP's effectiveness.

d. If a homeowner has been accepted into TMAP, and his financial situation worsens, he can not get into the assignment program. Moreover, if a homeowner becomes delinquent after accepting TMAP, it is too late to offer assignment. The ability to change from TMAP to the assignment option would give HUD greater flexibility in fitting programs to homeowner and agency needs.

4. Staffing levels

a. Under TMAP, the mortgage remains with the original mortgage company. However, relations between mortgagee and mortgagor may have already deteriorated by the near brush with foreclosure prior to forbearance acceptance. This situation may hamper TMAP's effectiveness, especially in the area of secondary default. HUD staff will find themselves serving loans which are the mortgagee's responsibility.

b. TMAP's implementation will not mean a significant savings to HUD in personnel costs. The TMAP study states:

> One of the major advantages of TMAP however, is that the loan management staff would be conducted by mortgagor servicers in the private sector. Because of this, perhaps 90 percent (i.e. 140) of the 156 staff-years currently estimated as being devoted to the HUD-held mortgage portfolio would not be required for that function." [26]

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[24] See hearings.
[25] Op. Cit. Federal Register, p. 14497.
[26] TMAP Study, p. 143.

However, because servicers are not being paid more for servicing TMAP loans, and because HUD reimburses servicers for payments missed by mortgagors, servicers have no incentive to service troubled loans. HUD staff have acknowledged to Subcommittee investigators that HUD will probably find itself having to contact delinquent mortgagors.

c. The request for a TMAP contractor ("concentrator"), as indicated, has been offered. The RFP asks for one nation-wide contractor. This arrangement will make personal contact between contractor and homeowner difficult. Homeowners who have financial questions, need budget advice or require adjustments in work-out agreements could find it cumbersome to reach needed help. They might instead contact local HUD area offices.

d. As mentioned previously in the TMAP demonstration, counselors were used to help inform participants of their rights and duties in the demonstration. In fact, counseling was mandatory, and homeowners had to collect their TMAP vouchers from the counselor in order to make their mortgage payments. This function was important to the demonstration. If it is not performed by the TMAP concentrator, then HUD staff will be required. HUD's decision to remove the formal role that counseling had in the TMAP demonstration could adversely affect HUD's workload under TMAP.

D. HUD HAS TO INFORM FHA-INSURED HOMEOWNERS OF THE AVAILABILITY OF FORBEARANCE

FHA forbearance could be more effective if it were more widely used. The fact that it is underutilized stems from two causes: (a) a small percentage of homeowners apply; and (b) those that do are frustrated during the application process.

Testimony at the investigating Subcommittee hearings indicates that any number of factors are to be blamed for the lack of knowledge about HUD forbearance. Mortgagors professed bewilderment at the legal intricacies and the adversarial role that HUD plays in the assignment process.

Testimony at the investigating Subcommittee's hearing was taken from a former HUD contractor who worked closely with mortgage counselors, mortgagors, and HUD staff. Because of the insight Ms. Kleeman offers, a major section of her testimony is printed below:

> a. Few mortgagors go to HUD to request an assignment after receiving the preliminary letters from their mortgagees. HUD statistics seem to indicate that mortgagees recommend that HUD accept assignment less than one-quarter of the time. This means that most mortgagors get a letter saying that the mortgagee can't help them anymore, that the mortgagee does not believe that HUD should accept an assignment but the homeowner can go to HUD directly. From my experience, the reasons given by the mortgagees often are not clearly related to the assignment criteria and are therefore out of compliance with the Handbook and misleading and discouraging to the homeowner.

b. Those homeowners who do go to HUD either do not followup and complete the application or they provide inadequate information which results in a preliminary negative decision.

c. After a preliminary negative decision many discouraged mortgagors fail to followup and request the face-to-face conference to which they are entitled. For many, this will be the second time they've been told that it does not appear that HUD will be able to accept an assignment.

d. Those who do request and attend a conference do not understand the criteria to be met and what kinds of documentation are necessary to support their cases.

e. Even if accepted for an assignment, mortgagors often commit to unrealistic payment plans and fall into secondary default with the ultimate threat of foreclosure by HUD.

A mortgage servicer we worked with in California estimated that of the mortgagors they notify about the availability of the assignment program, only 10 percent go to HUD to request an assignment. Out of these he estimated that only one-quarter would have their applications accepted generally after a face-to-face conference following a preliminary negative decision. While some HUD field offices have far better records than others, this generally translates to only 2½ percent of those who are potentially eligible being accepted. Our experience is that with active housing counseling far more people do understand the program and how it operates. Applications are appropriately made, documented and accepted and payment plans are more appropriately designed, monitored and met.

a. Given the size of the caseloads for processing applications, servicing Secretary-held mortgages, and doing other duties such as mortgages review, in my opinion the Single Family Housing and Mortgagee Activities sections of HUD field offices are terribly understaffed. At the application stage this means that mortgagors gets little, if any assistance with the process. A HUD estimate three years ago was that no more than six (6) hours of total staff time on the average should be spent on each case from initial application through the complex process to a final decision. In contrast, a private servicer with whom we worked estimated that its staff required a minimum three (3) hours to process its portion of an assignment case and to prepare the package to send to HUD, one very small part of the overall assignment process.

At the servicing stage adequate staff time must be spent with each mortgagor in order to insure effective collection. HUD has detailed procedures that private mortgage servicers must follow in handling FHA mortgages. These include phone calls, letters, referral to counseling and home visits. Sadly, few of these procedures are followed by HUD itself.

Private mortgage services estimated that a loan servicer working on delinquent cases could only handle 10% of the caseload that someone handling current accounts can manage. Since all mortgagors in the assignment program by definition have had at least one serious default problem, their cases will necessarily require intensive servicing. Private mortgage servicers generally are able to use forbearance and develop payment plans only when a complete cure of the default is possible in the very near future. A major purpose of the assignment program is to provide relief for people with longer term problems who require flexible payment plans for up to 36 months. This requires constant followup if payment is to proceed in any reasonable fashion. I understand that in Chicago HUD Area Office four staff people handle the servicing of approximately 2,000 Secretary-held mortgages. This is an unfair burden on the mortgagors, on HUD staff and on the insurance fund.

b. Some of the forms and letters used seem to impede rather than facilitate the program. A major problem in HUD's processing of assignment cases has been in obtaining the information and documentation necessary to make an informed decision on the applications. One significant factor is the application form, HUD 92068F. On a two page form only one question specifically addresses the two most significant eligibility criteria which are in brief: whether the default was caused by circumstances beyond the mortgagor's control and whether there is a reasonable prospect that the mortgagor will be able to resume full payments after a temporary period of reduced or suspended payments, not exceeding 36 months. This single question reads "Explain in your own words why you got behind in your mortgage payments. How do you plan to catch up on your payments?" There is no request for a chronology of events, no explanation of how this question relates to the criteria and no indication of the need for documentation. Two and one-quarter inches of space are provided for the answer. In addition, the application form is almost entirely oriented to the present time. It asks for present and previous employers; other income available; assets; deductions from gross pay; monthly expenses and debts; dependents; and emergency repairs necessary. Only one question besides the narrative one described before asks "Do you expect future income?" Small wonder HUD staff have too little relevant information to make informed decisions.

The problem of getting information related to the criteria is aggravated because follow-up form letters rarely include adequate explanations of what specifically is needed in order for HUD to reconsider and possibly accept an assignment. This is true despite of HUD Central's instructions to be precise about what and how much is needed. Because there are very tight time deadlines for each stage of the process, those few people who do attend a face-to-face conference and are finally able to recognize the gaps are often told that it is too

late to submit further information. And unlike in the Social Security program where regulations require the Social Security Administration to assist applicants in locating documentation such as proof of age, in the assignment program the burden is totally on the mortgagor.

c. Many HUD field staff are undertrained and their knowledge about assignment criteria and procedures is spotty at best. Training funds have never been overly generous and have now been cut back almost entirely. Therefore, many field staff truly do not understand the assignment criteria and how to apply them. Some staff regularly use Handbook 4330.2 which governs the program. While others may have read it at some point, they seem generally unfamiliar with the Handbook as a real resource and legal framework and do not seem to make use of it as they should. In observing face-to-face conferences in a HUD field office, none of the servicers I observed ever referred to the Handbook. In addition, while HUD Central staff are knowledgeable and available to answer questions and provide clarification, my sense was that many field staff didn't even know they had questions!

Misunderstanding of the "reasonable prospect" criterion is frequent. The Handbook very clearly states that future ability to pay is the key factor and not present income or credit history. However, the information gathering as described above is almost all focused on the present. In all but one conference I observed two years ago, the servicers' entire questioning of the mortgagors centered on present budget. This confusion, which is not surprising considering the emphasis in the forms, was also apparent among HUD loan specialists who sat in on our training sessions. Generally, if mortgagors are unable to show current ability to begin repaying, they are often told that they are not eligible. (The field research under the National Urban League contract showed a high correlation between amount of income at time of application and acceptance.) Even where this problem is not present, more and more in recent times I have gotten reports of field offices requiring documentation of firm offers of employment or actual current resumption of income as a condition before accepting a case. Again the Handbook clearly states that this is *not* required and that "where a person is presently out of work and is not suffering from any disability that will prevent reemployment, and is seeking work, all doubts as to future employability should be resolved in his/her favor."

Unfortunately although HUD Central staff empasize appropriate application of the criteria when asked, confusion persists. Some confusion may result from telegraphed supplemental instructions which I believe are intended as clarifications of the Handbook but which are often taken as superseding the Handbook and are therefore misleading. For example a telegram went out in Fall, 1981 encouraging documentation of actual employment prospects in cases where the person in question had not previously been employed. Some

field offices interpreted this to mean that unemployed mortgagors must have documented offers of work in order to meet the criteria.

d. Another persistent problem for those whose assignments are accepted is with confusion about payment plan requirements. Misunderstanding of the Handbook payment plan requirements combined with pressure to increase collections have led to inappropriate payment plans which in turn have contributed to very high default rates on secretary-held mortgages. Many HUD loan specialists actively participated in our training sessions including taking our pre-test. It was apparent from their answers to the question in which they were asked to compute a payment plan that, despite clear Handbook instructions, they were not computing plans properly. In fact, not one loan specialist who took our training pretest computed the payment plan correctly. This was also borne out in review of numerous files in HUD offices.

There are clearly cases where the cause of default has been cured in which increased payments or regular monthly mortgage payments are appropriate. However, one purpose of the assignment program is to give the mortgagor's who need it, a temporary period of reduced or suspended payments. To ask someone whose current income won't cover even his regular monthly mortgage payment to make an increased payment in order to immediately begin reducing the delinquency is a disaster waiting to happen—and I suspect a major cause of secondary defaults. In HUD field offices that make wise use of appropriate reduced and suspended payment plans, secondary default rates are, I would guess, less of a problem.

In June 1981, HUD figures showed that 42 percent of cases accepted for assignment were under increased payment plans, 25 percent under full, 28 percent under reduced and only 5 percent under suspended payment plans. While 51 percent of the mortgagors were current under their plans, 49 percent were either in default or foreclosure.[27]

HUD officials told the investigating Subcommittee staff that they did not know what percentage of delinquent mortgages were offered for assignment. HUD officials also stated that they did not know what percentage of homeowners who were deemed ineligible by their mortgage companies went on to apply for assignment themselves. The figures used in the quote above appear to be close to the Committee's own reckoning, given the few facts available.[28]

The following diagram is from the counseling study cited above. It graphically illustrates the number of mortgagors in default in 1980.[29]

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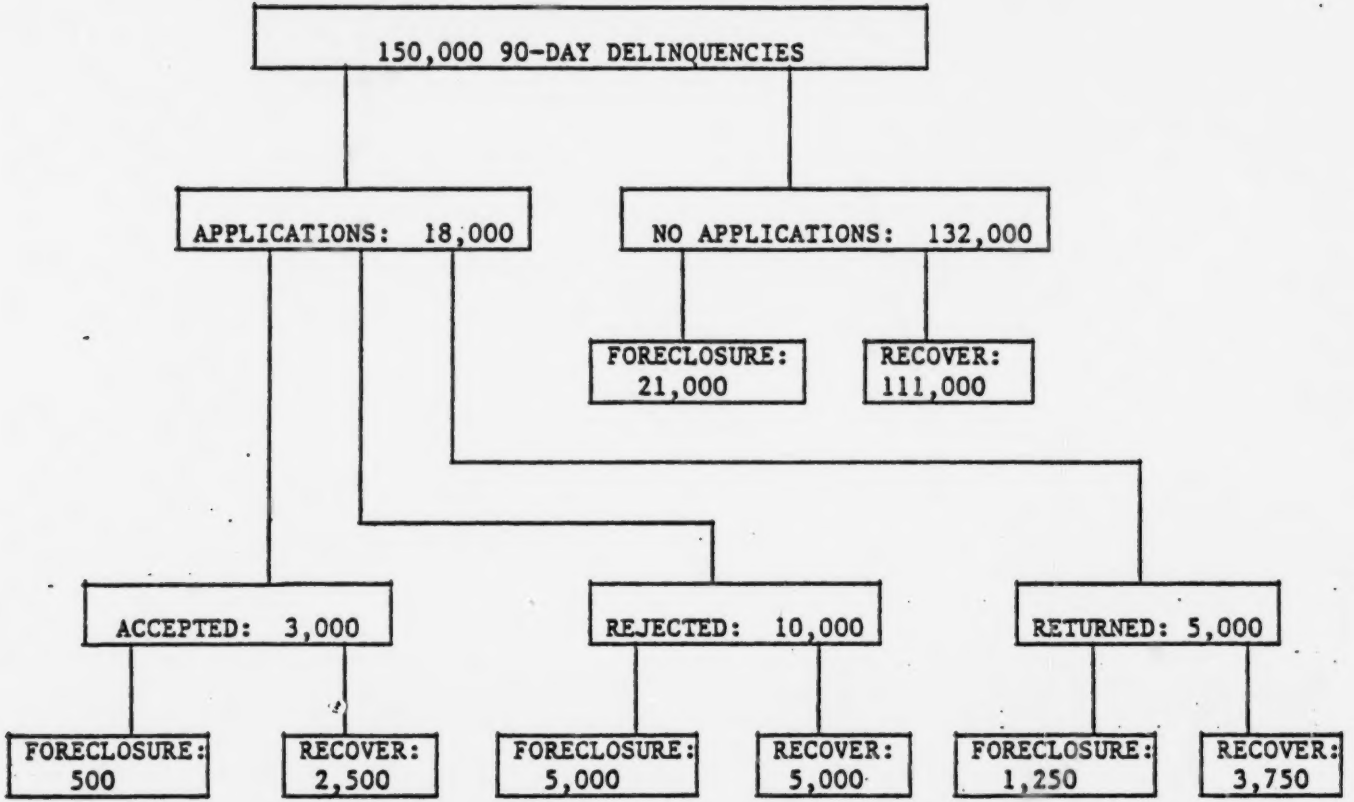
[27] See hearings.
[28] See hearings.
[29] Counseling Study, Op. Cit. Table 6.1.

Descriptive Universe of Annual HUD-Insured Defaults



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During the hearings, a HUD official stated that HUD was considering public service T.V. or radio announcements, to inform FHA homeowners of their options. If so, this represents a positive change in HUD's policy.

HUD should also give consideration to reevaluating its handbook and procedures, giving as many financially troubled homeowners as possible access to the application process and sympathetic consideration. HUD might design and distribute a simple, readable and attractive flyer about default and delinquency counseling and the assignment program with space left in the flyer to insert the name of a local housing counseling agency or, in the absence thereof, the address of the HUD area office. Similarly, HUD should reimburse counseling units for time taken to make FHA-insured mortgagors aware of the services counseling agencies provide, which are FHA-funded.

HUD should make the assignment process as comprehensible as possible. For example, the first letter the mortgage servicer sends to the family about the assignment or TMAP option should be more encouraging, and could include check-off boxes rather than the current extensive written responses. One series of boxes might identify the usual allowable "circumstances beyond the mortgagor's control" which caused the delinquency. The present forms are designed as though FHA-insured mortgagors are as familiar with the regulations as are the HUD area office staff who must process the forms. HUD ought to convene a meeting of area office staff, housing counselors and others, to identify the areas in which families experience the greatest difficulty with the assignment or TMAP application process.

E. HUD HAS TO TAKE INTO ACCOUNT THE EFFECT OF WIDESPREAD FORECLOSURE ON NEIGHBORHOODS

Mortgage bankers report that when mortgage default levels rise, defaults do not occur in all neighborhoods evenly. In middle- and upper-income neighborhoods, homeowners are often able to dip into savings.

The testimony taken at the Subcommittee's hearings indicates that in some moderate-income neighborhoods, defaults can have a snowballing effect. When foreclosure of HUD-insured mortgage occurs, the house is often boarded-up. As more and more houses are transformed in this manner from homes to eyesores, property values in the community will reflect this. Everyone's equity is adversely affected, further reducing the chance that if another homeowner approaches default, he will be able to sell his home and recoup his investment. If he can't, the alternative is often foreclosure.

Where a significant percentage of homes in a community are FHA-insured, HUD has a financial interest. HUD also has a general responsibility to the community. If widespread foreclosures threaten to upset a neighborhood's economic stability, then HUD ought to gauge the community-wide impact, and temper its forbearance decisions accordingly.

Once the community's default rate and housing values stabilize, normal forbearance criteria could be reapplied. When a neighborhood is in danger of becoming blighted because of widespread default,

HUD shouldn't contribute to this by proceeding with massive foreclosures.

Congressman Gus Savage's testimony, as well as the Chicago area housing counselor testimony,[30] indicates that their respective communities are heavily affected by HUD forbearance decisions.

The hearings held by the Subcommittee show the severity of the mortgage default problem and the level of fear in some communities. Resorting to foreclosure moratorium may not be necessary. However, HUD policy has to be far-sighted and look past the current recession and 10-percent nationwide unemployment rate.

One of the criteria for offering forbearance is that the applicant has to demonstrate a reasonable prospect of repaying the assistance and the mortgage. Clearly as the economy remains stagnant, a "reasonable prospect of repaying" becomes more difficult to demonstrate. During Subcommittee investigation, a HUD official stated, "Unfortunately, as times get worse, HUD assignment criteria exclude more and more people."

In areas like Chicago with shrinking blue-collar employment rising overall unemployment, and a 12-percent FHA delinquency rate (as of December 1981), the "reasonable prospect" criteria prevents forbearance acceptance, and increases foreclosures.

The Committee suggests that HUD be specially wary of rigid application of this criteria, and that the criteria itself does not become a roadblock to homeowners experiencing default.

IV. Findings

1. Although HUD pays insurance claims totaling over $300 million annually (a loss of $23,000 per foreclosure) on foreclosed single-family, nonsubsidized mortgages, HUD has never sought to comprehensively determine whether a variation of operating costs levels would result in a net savings to the FHA insurance program. Variables which constitute operating cost include: HUD staffing levels, amount and type of homeowner counseling, use of assignment acceptance criteria and work-out agreement formula.

This planning omission may have hurt both financially hard pressed homeowners and the FHA insurance fund.

2. HUD's proposed 1983 budget eliminated the $7 million counseling set-aside, and the mortgage counseling component of the Temporary Mortgage Assistance Payments has been dropped. Counseling's effectiveness was a major factor in the success of the demonstration project conducted to test the feasibility of TMAP. Other HUD studies have also concluded that default counseling is worth its cost in avoided insurance claims.

TMAP's enabling legislation specifically encourages HUD's support of counseling.

HUD's mismanagement of FY 1981 Housing Counseling appropriations caused severe damage to the Housing Counseling Program.

3. Although not yet implemented and not yet approved by the courts, TMAP may be an effective mechanism for reimbursing mortgagees. It is not, however, a complete substitute for assignment if it

[30] See hearings.

does not have the same work-out formula and homeowner criteria and cannot recast the term of the mortgage.

4. HUD's own actions, in many cases, aggravate the foreclosure problem. A major impediment to increasing the effectiveness forbearance has on the delinquency and default problem, is that too many hurdles exist for large numbers of deliquent homeowners to take part.

a. Many homeowners are not aware of their rights and responsibilities as FHA-insured mortgagors. The good-faith efforts being made by HUD and mortgagees to educate homeowners are insufficient to insure that all eligible mortgagors are offered for forbearance consideration.

b. Forbearance and mortgage assignment applications are processed in a manner which ignores the domestic, economic and psychological dislocation which many defaulting or delinquent families suffer. The process is handled as if it were an adversarial proceeding. A minimum of assistance by HUD personnel is offered. Such treatment does not encourage cooperation, honesty, or hope, for homeowners.

5. In certain communities, the mortgage delinquency problem is acute. Where FHA-insurance has been widely used, HUD assignment and foreclosure policies have a direct impact not only on individual homeowners, but also on the economic health of the whole community.

V. Recommendations

1. To keep operating costs of the FHA insurance program to a minimum, HUD's procedures should provide for increased consideration of forebearance to mortgagors who can be expected to repay mortgages over the long-term.

a. The Subcommittee recommends a pilot study, much on the order of the TMAP study, which would compare the net cost to the insurance funds for such elements of forbearances as assignment criteria, staffing and counseling levels, work-out formulas, and repayment schedules. The purpose of the pilot study would be to advise HUD to the specifics of how regulations and regulations ought to be revised.

2. Because it makes the operation of the FHA insurance fund operation more efficient, the law should be changed to provide that counseling be funded directly from the Fund.

a. HUD should continue to strengthen counseling programs for FHA-insured mortgagors by maintaining its funding of counseling training and support groups.

b. HUD should allow counselors to play a more collaborative, standardized, and integral role in assisting homeowners. HUD should encourage and support counselor contact with homeowners even after forbearance is granted.

3. HUD should not begin cutting staff from mortgage servicing until and unless TMAP's implementation makes this an option. Assignment should remain an option for those cases where work-out agreements would be untenable for mortgagers under TMAP and in cases where secondary default is high.

TMAP shoud be used to supplement rather than supplant assignment.

4a. HUD should continue efforts to inform as many financially-troubled homeowners as possible of their forbearance options. HUD should consider public service television and radio announcements in high unemployment areas. HUD should also support the outreach of counseling agencies.

HUD's system for notifying mortgagors of HUD's policies and procedures should be reviewed for clarity and simplicity.

4b. HUD's handbook and field manuals should be amended so as to encourage more assistance to forbearance applicants. Mortgage counselors could be more effectively utilized by giving them a role in preparing homeowners for the application process.

5. HUD ought to consider decreased foreclosure or less-stringent assignment criteria for homes in communities whose economic health and stability might be in jeopardy if large-scale foreclosure on FHA insured mortgages were to occur.

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